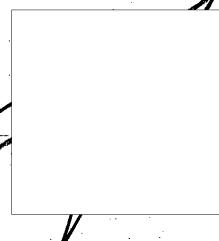


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The President's Daily Brief

November 9, 1974

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FOR THE PRESIDENT ONLY

November 9, 1974

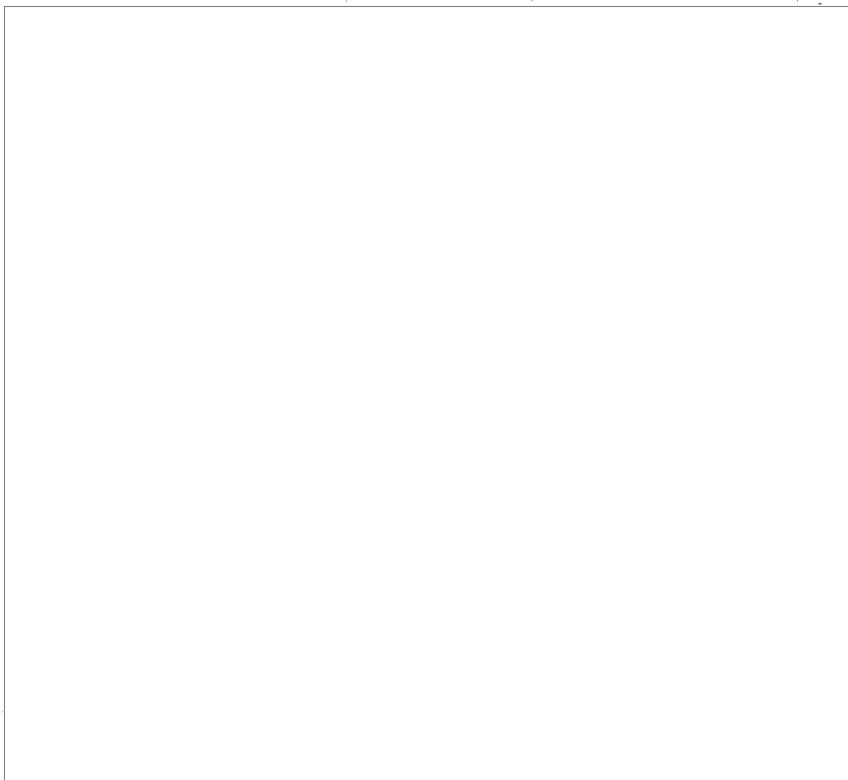
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EGYPT-ISRAEL



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The Egyptians held a large naval exercise on November 6, apparently to test the navy's capability to repel an amphibious invasion in the Port Said - Damietta area. At least nine Egyptian ships, including destroyers, submarines, and guided-missile patrol boats, participated.

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The locale and scenario of the exercise presumably reflect Egyptian concern that the Israelis might attack in that area if fighting resumes. 

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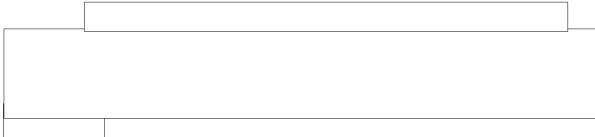
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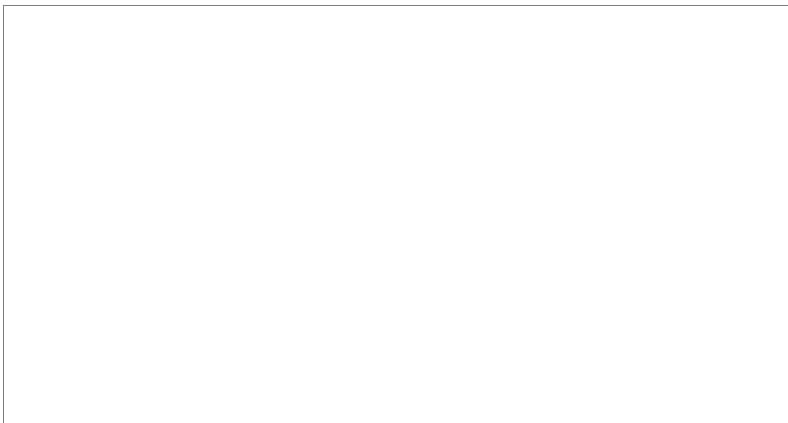
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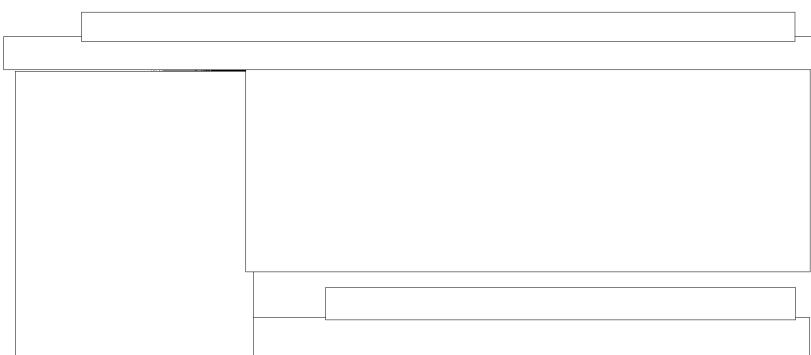
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PANAMA

A major development in the canal treaty talks increases the chances of an accord by next March.

On Thursday, Panama accepted Ambassador Bunker's package proposal covering the basic issues of canal operation, canal defense, and jurisdiction, and the two parties initialed three agreements on concepts to guide subsequent treaty drafting. Still to be tackled are compensation to Panama, return of some Zone lands, duration of the treaty, and options for expansion of the canal.

Much of the present progress undoubtedly results from the recognition now given to Panama's sensitivity on matters pertaining to its sovereignty over the Zone. The language of the agreements--carefully chosen to be palatable to the Panamanians--made it possible for them to accept effective US control of canal operation and defense for the lifetime of a treaty. Ambassador Bunker's collateral offer to begin planning now for Panama's participation in canal operation was, moreover, viewed by the Panamanians as evidence of US good faith and caused them to be even more receptive.

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PORUGAL-EC

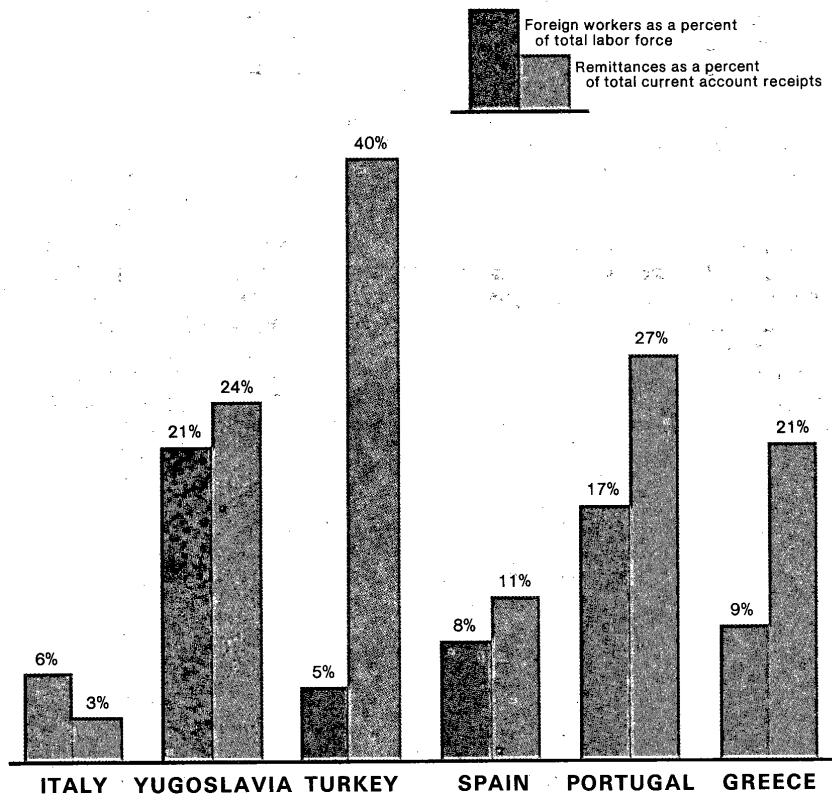
Lisbon, faced with a deteriorating balance of payments and an economic slump, continues to explore the possibility of obtaining extensive financial assistance and trade concessions abroad. Practically all West European countries and the USSR have been approached, as well as the US. Although Portugal does not intend to ask for negotiations looking toward an association agreement with the EC any time soon, it has now provided the EC Commission with more detailed proposals for assistance.

Lisbon's search for financial help has significant political implications. EC Commission Director General Wellenstein told US officials recently that, during a visit to Lisbon last month, Foreign Minister Soares took the line that the Lisbon government is anxious to receive tangible economic support from the West in order to counterbalance any Soviet offers.

In this connection, Alvaro Cunhal, head of the Portuguese Communist Party and minister without portfolio, gave a rosy--if very generalized--account of future trade prospects with the USSR following his trip to Moscow earlier this month. Cunhal does not, however, appear to have clinched any specific deals, and Lisbon's NATO representative claims that, contrary to press reports, Soviet economic aid was not discussed in any detail.

In recent conversations with representatives of Western governments, Portuguese officials have argued that they must receive aid commitments from the West before their election next spring, in order to enable the government to demonstrate convincingly to the electorate that Western Europe is prepared to help. An announcement of EC concessions might also increase the confidence of Portuguese investors, who have been holding back because of the uncertain political situation and labor disorders.

The Importance of Foreign Workers to Labor Exporting Countries



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WESTERN EUROPE: FOREIGN WORKERS

Rising unemployment is generating pressure to reduce the number of foreign workers in the northern countries of Western Europe.

Several governments hope that the 8 million to 10 million foreign workers will bear the brunt of their anti-inflation measures, providing some insulation from voter backlash. The countries that supply the labor, on the other hand, fear that thousands of their workers now abroad will be forced to come home. The resultant rise in unemployment and balance-of-payments difficulties would contribute to political tensions, especially in Italy, Greece, Turkey, and Portugal.

Declining industrial production in Western Europe has led to widespread layoffs and expectations of large-scale unemployment this winter. The slowdown is particularly acute in several industries with a high concentration of foreign workers--construction, automobile manufacture, and tourism.

In West Germany--by far the largest employer of foreign labor in Western Europe--the unemployment rate for foreign workers was 2.6 percent in September, compared with 0.6 percent a year ago. In contrast, unemployment among the domestic work force was 2.3 percent, compared with 0.9 percent in September 1973. Recently publicized forecasts of a 4.3-percent unemployment rate this winter has deepened West German concern.

To protect domestic workers:

--West Germany and France have banned the recruitment of foreign labor from outside the EC and have stiffened penalties against the smuggling of foreign workers. Bonn is considering a special tax on companies employing foreigners.

--Switzerland has reduced the number of work permits and has eliminated exemptions granted for foreign workers in hospitals and schools and on farms, despite its exceptionally low unemployment rate.

(continued)

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--The Dutch have put a ceiling on the immigration of foreign workers and the number of foreigners a firm may hire. The government is also considering offering "farewell bonuses" to foreigners who go home voluntarily.

Workers' remittances constitute almost half of Turkey's current account receipts and are a primary source of foreign exchange earnings for Portugal, Yugoslavia, and Greece. Yugoslavia and Greece already have current account deficits. A sharp drop in remittances could push the current accounts of both Turkey and Portugal into the red. As a member of the EC, Italy is partially protected from north European cutbacks in the use of foreign labor. Nonetheless, even a moderate drop in remittances from this source will rock its already shaky financial position.

Yugoslavia and Portugal would be badly hurt by cutbacks because they have exported so large a proportion of their labor force. Portugal has requested that the EC guarantee to maintain the current level of Portuguese workers in the Community. Given the EC's own unemployment problems, however, such a commitment is highly unlikely. Even without a return of migrant workers, reduced demand and political uncertainties are leading to higher unemployment in Portugal, Spain, and Greece. Unemployment already is severe in Turkey (11 percent) and Yugoslavia (9 percent).

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ITALY

Foreign Minister Aldo Moro is continuing his attempts to form a new government, as the Italian political stalemate heads into its sixth week.

Moro began his negotiations last week, but he has been dogged by the same interparty differences that prevented Christian Democratic Party chief Fanfani from forming a government. Moro now appears ready to settle for a "monocolore"--all Christian Democratic--caretaker government. The "monocolore" alternative is an established way of letting the dust settle after a major political blowup in Italy, but Moro is even having difficulty securing an agreement on this formula.

The ardently anti-communist Social Democrats are keeping alive a feud between themselves and the Socialists over relations with the Communist opposition. If the Social Democrats stand pat, the Christian Democrats will have to choose between them and the Socialists in order to set up even a "monocolore" cabinet. The Christian Democrats are loath to make such a decision, since it would require a clear choice between left and right--something the Christian Democrats have tried to avoid.

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Unemployment is rising rapidly, meanwhile, and organized labor expressed its discontent by calling another nationwide general strike yesterday--the second since the government crisis began.

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USSR

The USSR is expanding purchases in the West as a result of a sharp rise in its hard currency earnings. Contracts for Western plants and equipment placed so far this year are already at a record \$3 billion; during recent negotiations, Soviet buyers increased their original requests for US equipment.

In the past several weeks, Moscow has also placed orders for \$900 million worth of corn and wheat, and \$200 million worth of raw sugar. [redacted]

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The Soviets will pay cash for most of their agricultural purchases and for roughly \$150 million in Western equipment. The Soviets are expected to have substantial hard currency trade surpluses in 1974 and in 1975 as a result of the rapid rise in world market prices for major Soviet raw material exports.

Gold sales are another major source of hard currency. While only \$300 million in Soviet gold is known to have been sold this year, large additional sales are rumored to have occurred in late October.

Moscow probably would not have bought such sizable amounts of agricultural products if--as in the past--the purchases required heavy borrowing. Soviet agricultural output promises to be good in 1974, and recent purchases seem geared to improving, rather than just maintaining, domestic conditions. A \$100-million cash purchase of tractors from the US International Harvester for use in constructing the second Trans-Siberian railroad, on the other hand, resulted from a Soviet desire and ability to avoid high interest rates prevailing in the West.

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THAILAND-LAOS

A high-level Thai delegation has arrived in Vientiane in an effort to ensure that Thailand maintains some leverage and influence in Laos. The Thais are well aware that the struggling Lao coalition government has been looking increasingly to North Vietnam, China, and other communist countries for economic assistance, and they attach considerable importance to shoring up relations with their Lao neighbors.

Negotiations on the ministerial-level meetings began some months ago, and the Lao are apparently aware of and in general agreement with a Thai cabinet proposal for Laos that includes:

- a \$250,000 contribution to the Lao Foreign Exchange Operations Fund;
- \$500,000 in short-term aid in basic commodities such as food, textiles, and medicine;
- long-term recovery assistance, especially for war refugees;
- more equitable treatment and charges for Lao goods transiting Thailand;
- expanded cooperation in social, cultural, and educational fields.

Lao communist Deputy Prime Minister Phoumi Vongvichit, who invited the Thai delegation to Vientiane, and his communist colleagues have not said they have difficulty with the Thai offer. Non-communist members of the coalition, however, fear that Thailand's participation in Lao foreign exchange operations would enable the Thai government to exploit Vientiane's financial problems.

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US Ambassador Whitehouse believes that Lao Prime Minister Souvanna Phouma's mid-summer heart attack has greatly reduced his ability to resume full political activity. Souvanna has admitted to feeling very tired and told the ambassador yesterday, in their first meeting since Souvanna's return from France, that he would be leaving for the royal capital of Luang Prabang in about a week for an extended convalescence.

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NOTES

Japan: The US embassy in Tokyo reports that those in Japan who oppose your visit have not been able to rally widespread support for their efforts to disrupt it. Protesters are already trimming the list of activities they were planning. One opposition party recently decided against participating in demonstrations against the visit, and others have been unable to agree on a united effort. The major groups now opposing the visit--the Communist and Socialist parties and Japan's largest labor federation--are still committed to holding demonstrations, but they are already stressing that these will be nonviolent. The major rallies in Tokyo are scheduled for days when you will not be there.

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Jordan: [redacted]

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South Vietnam: The South Vietnamese Foreign Ministry has called for resumption of political and military negotiations with the Viet Cong without conditions, according to an announcement released Friday. There has as yet been no communist response. Although South Vietnam is trying to place the onus on Hanoi for the lack of movement in negotiations, the announcement, in effect, is Saigon's response to a Viet Cong statement of October 8 that called for the removal of President Thieu as a precondition for negotiations and implementation of the Paris Agreement. The announcement also appears to be part of Thieu's current efforts to take the wind out of the sails of his political opponents in South Vietnam.

(continued)

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Cyprus: Archbishop Makarios reportedly has advised Greek Cypriots, including Acting President Clerides, that he will fly to Athens on November 21 and on to Cyprus on the 25th. [redacted]
whether Makarios will return as president or only as religious leader will be decided in Athens. [redacted]

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